

**HOSPITAL SERVICE DISTRICT NO. 1 OF
EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Zachary, Louisiana

Audited Financial Statements

Years Ended June 30, 2007 and 2006

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2/13/08

Contents

Independent Auditor's Report	1 - 2
-------------------------------------	-------

Basic Financial Statements	
Balance Sheets	3
Statements of Revenues, Expenses, and Changes in Net Assets	4
Statements of Cash Flows	5 - 6
Notes to Financial Statements	7 - 25

Independent Auditor's Report on Supplementary Information	26
--	----

Supplemental Information	
Schedule of Board of Commissioners and Salaries	27

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards	28 - 29
---	---------

Current Year Findings	30
Prior Year Findings	31



Independent Auditor's Report

Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana,
d/b/a Lane Regional Medical Center
Zachary, Louisiana

We have audited the accompanying balance sheets of the Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital), a related organization of the City-Parish of Baton Rouge, as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center, as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2007, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

110 VETERANS MEMORIAL BOULEVARD, SUITE 200, METAIRIE, LA 70005-4958 • 504.835.5522 • FAX 504.835.5535

5100 VILLAGE WALK, SUITE 202, COVINGTON, LA 70433-4012 • 985.892.5850 • FAX 985.892.5956

5153 BLUEBONNET BOULEVARD, SUITE B, BATON ROUGE, LA 70809 • 225.296.5150 • FAX 225.296.5151

WWW.LAPORTE.COM

RSM McGladrey Network

An Independently Owned Member

The Hospital has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States have determined to be necessary to supplement, although not required to be part of, the basic financial statements.

Schultz, Schickel, Long & Neal

A Professional Accounting Corporation

December 14, 2007

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Balance Sheets
June 30, 2007 and 2006**

	2007	2006
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 3,048,415	\$ 1,766,595
Certificates of Deposit	5,335,000	6,350,000
Short-Term Investments	14,829,816	14,003,593
Investments Held by Trustee for Debt Service	8,328,283	336,996
Patient Accounts Receivable, Net of Allowances for Doubtful Accounts of \$2,820,247 in 2007, and \$2,274,321 in 2006, Respectively	6,719,538	5,258,882
Inventories	551,031	508,168
Other Current Assets	682,843	428,518
Total Current Assets	39,494,926	28,652,852
Non-Current Certificates of Deposit	-	750,000
Capital Assets, Net	30,723,116	26,102,077
Other Assets	2,768,494	2,120,481
Total Assets	\$ 72,986,536	\$ 57,625,410
Liabilities and Net Assets		
Current Liabilities		
Current Maturities of Long-Term Debt	\$ 1,303,120	\$ 1,103,646
Current Maturities of Capital Lease Obligations	926,627	434,303
Accounts Payable	1,683,795	1,347,328
Accrued Salaries and Wages	455,070	368,342
Accrued Compensated Absences	890,147	1,064,335
Accrued Payroll Withholdings	73,819	60,666
Estimated Third-Party Payor Settlements	606,594	900,000
Other Current Liabilities	557,165	583,749
Total Current Liabilities	6,496,337	5,862,369
Long-Term Debt, Less Current Maturities	15,703,924	4,545,264
Long-Term Capital Leases Obligations, Less Current Maturities	2,233,762	1,407,748
Total Liabilities	24,434,023	11,815,381
Net Assets		
Invested in Capital Assets Net of Related Debt	10,555,683	18,611,116
Restricted for Debt Service	8,328,283	336,996
Unrestricted	29,668,547	26,861,917
Total Net Assets	48,552,513	45,810,029
Total Liabilities and Net Assets	\$ 72,986,536	\$ 57,625,410

The accompanying notes are an integral part of these financial statements.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2007 and 2006**

	2007	2006
Operating Revenues		
Net Patient Service Revenue, Net of Provision for Bad Debts of \$8,601,535 in 2007, and \$4,627,751 in 2006, Respectively	\$ 48,897,894	\$ 47,419,947
Other Operating Revenue (Net of Expenses)	410,502	367,691
Total Operating Revenues	49,308,396	47,787,638
Operating Expenses		
Salaries	23,190,852	21,254,495
Fringe Benefits	3,840,594	3,189,568
Non-Medical Supplies	1,292,993	1,197,931
Medical Supplies	6,747,404	5,532,892
Professional Fees	1,127,345	1,137,218
Contracted Services	4,953,869	3,519,522
Utilities	1,104,096	1,271,427
Repairs and Maintenance	979,962	866,568
Insurance	1,117,231	954,453
Depreciation and Amortization	2,939,438	2,808,696
Other	1,430,890	951,888
Total Operating Expenses	48,724,674	42,684,658
Operating Income	583,722	5,102,980
Non-Operating Revenue (Expenses)		
Investment Income	1,166,604	410,007
Interest Expense	(467,504)	(314,168)
Other Non-Operating Revenue	1,459,662	528,198
Net Non-Operating Revenue	2,158,762	624,037
Change in Net Assets	2,742,484	5,727,017
Net Assets, Beginning of Year	45,810,029	40,083,012
Net Assets, End of Year	\$ 48,552,513	\$ 45,810,029

The accompanying notes are an integral part of these financial statements.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Cash Flows from Operating Activities		
Receipts from and on Behalf of Patients	\$47,203,351	\$ 47,059,848
Payments to Suppliers and Contractors	(19,821,776)	(15,348,859)
Payments to Employees	(27,132,337)	(25,288,549)
Other Receipts and Payments, Net	350,983	394,305
Net Cash Provided by Operating Activities	<u>600,221</u>	<u>6,816,745</u>
Cash Flows from Non-Capital Financing Activities		
Other Non-Operating Revenues	1,459,662	528,198
Cash Flows from Capital and Related Financing Activities		
Principal Paid on Capital Leases	(664,194)	(305,229)
Principal Paid on Long-Term Debt	(1,141,866)	(1,035,426)
Interest Paid on Long-Term Debt	(467,504)	(314,188)
Proceeds from Long-Term Debt	12,500,000	-
Purchase of Capital Assets	(5,118,593)	(2,506,256)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>5,107,843</u>	<u>(4,161,079)</u>
Cash Flows from Investing Activities		
Interest and Dividends on Investments	1,166,604	410,007
Purchase of investments	(13,402,510)	(4,671,695)
Proceeds from Sale of investments	6,350,000	1,940,411
Net Cash Used in Investing Activities	<u>(5,885,906)</u>	<u>(2,321,277)</u>
Increase in Cash and Cash Equivalents	1,281,820	862,587
Cash and Cash Equivalents, Beginning of Year	<u>1,766,595</u>	<u>904,008</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,048,415</u>	<u>\$ 1,766,595</u>

The accompanying notes are an integral part of these financial statements.

	2007	2006
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities		
Operating Income	\$ 583,722	\$ 5,102,980
Adjustments to Reconcile Operating Income to Net		
Cash Provided by Operating Activities		
Depreciation and Amortization	2,939,438	2,808,696
Loss on Disposal of Property and Equipment	29,941	20,659
Provision for Bad Debts	8,601,535	4,627,751
Changes in		
Patient Accounts Receivable	(10,062,191)	(4,612,628)
Inventories and Other Current Assets	(297,088)	(33,661)
Other Assets	(1,137,306)	(736,504)
Accounts Payable and Other Current Payables	336,467	207,941
Accrued Expenses and Payroll Withholdings	(100,891)	(269,266)
Estimated Third-Party Payor Settlements	(293,406)	(299,223)
Net Cash Provided by Operating Activities	\$ 600,221	\$ 6,816,745
Schedule of Non-Cash Investing, Capital and Financing Activities		
Purchase of Capital Assets Included in Capital Leases	\$ 1,982,530	\$ 899,720

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies

Nature of Operations

Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital), is a not-for-profit healthcare organization located in Zachary, Louisiana. The Hospital, which was created by the Metropolitan Council of the City of Baton Rouge and the Parish of East Baton Rouge (City-Parish) on June 12, 1957, under the provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950, provides inpatient, outpatient, and emergency care services for residents of southern Louisiana and Mississippi. The Hospital is exempt from Federal and State income taxes.

Lane RMC Service Corporation (Corporation) is a not-for-profit entity established to operate exclusively for the support and benefit of the Hospital, to carry out the goals, objectives and purposes of the Hospital, to develop and facilitate various health services activities, including joint venture activities, for the benefit of the Hospital, as expressly authorized by Louisiana statutes and regulations, and to engage in any lawful act or activity for which a corporation may be organized under Louisiana Non-profit Corporation Law. Although the Corporation is legally separate from the Hospital, the Corporation is reported as if it were a part of the Hospital because of the presence of a shared governing body with the Hospital. In accordance with Government Accounting Standards Board (GASB) Statement No. 14, the operations of the Corporation, for the year ended June 30, 2007, have been included in the Hospital's financial statements.

Financial Reporting Entity

Statement No. 14 of the Governmental Accounting Standards Board (GASB), The Financial Reporting Entity, establishes criteria for determining the governmental reporting entity and component units that should be included within the reporting entity.

Since the City-Parish appoints all of the members of the Hospital's Board of Commissioners and has the ability to impose its will on that organization, the Hospital is considered to be a component unit of the City-Parish of Baton Rouge, the financial reporting entity. The accompanying financial statements, however, present information only on the funds maintained by the Hospital and do not present information on the City-Parish, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

The significant accounting policies used by the Hospital in preparing and presenting its financial statements are summarized as follows:

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The Hospital utilizes the proprietary fund method of accounting, whereby revenues and expenses are recognized on the accrual basis. Under the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America for proprietary fund types, substantially all revenues and expenses are subject to accrual.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Such accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514, to the guidance set forth in the *Louisiana Governmental Accounting Guide*, and to the industry audit guide, *Health Care Organizations*, published by the American Institute of Certified Public Accountants.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all checking accounts, savings accounts, money market funds, certificates of deposit, and certain investments in highly liquid debt instruments with original maturities of three months or less. Certificates of deposit with original maturities of more than three months are presented separately in the accompanying balance sheets.

Investments and Investment Income

Investments in debt and equity securities are reported at fair value. Short-term investments consist primarily of mutual funds. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating income when earned.

Investments Held by Trustees

The Hospital has investments held by a trustee under a bond indenture agreement. These investments are held for future debt service.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable

Patient accounts receivable are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts. The allowance for uncollectible accounts is based on historical losses and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts, and decreased by write-offs of accounts determined by management to be uncollectible.

Inventories

Inventories, consisting primarily of medical supplies and drugs, are stated at the lower of cost (first-in, first-out method) or market.

Prepaid Expenses and Deferred Charges

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis. Deferred financing costs are amortized over the term of the related debt on the interest method.

Capital Assets

The Hospital's capital assets are reported at historical cost. Donated property is recorded at its estimated fair value on the date of receipt, which is then treated as cost. Additions, renewals, and betterments that extend the lives of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Depreciation has been provided using the straight-line method over the estimated useful lives of the related assets, which range from 2 to 40 years.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gains or losses are recognized in the Hospital's operations.

Compensated Absences

Hospital policy is to compensate employees for absences due to earned vacation. Accumulated vacation is accrued at the balance sheet date because it is payable upon termination of employment.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)

Net Assets

Net assets consist of net assets invested in capital assets (property and equipment), net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and the outstanding balance of any related debt that is attributable to the acquisition of the capital assets. Restricted net assets are those assets that are externally restricted by creditors, grantors, contributors, or laws and regulations, or those restricted by constitutional provisions and enabling legislation. Unrestricted net assets consist of all other assets.

Operating Revenues and Expenses

The Hospital's Statements of Revenues, Expenses and Changes in Net Assets distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services - the Hospital's principal activity. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates-per-discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future period as final settlements are determined. See Note 9.

Charity Care

The Hospital provides medical care to patients who meet certain criteria established under its charity care policy without charge, or at rates substantially lower than its prevailing rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue, and the Hospital can not quantify this amount.

Note 2. Deposits and Investments

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. The Hospital's bylaws require that all bank balances be insured or collateralized by U.S. Government securities held by the pledging financial institution's trust department in the name of the Hospital.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

The Hospital has various deposits and investments. The amounts reflected on the accompanying balance sheets are as follows:

	2007	2006
Cash and Cash Equivalents	\$ 3,048,415	\$ 1,766,595
Short-Term Investments	14,829,816	14,003,593
Investments Held by Trustee for Debt Service	8,328,283	336,996
Current Certificates of Deposit	5,335,000	6,350,000
Non-Current Certificates of Deposits	-	750,000
Total	\$ 31,541,514	\$ 23,207,184

The Hospital's balances were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name.

Under Louisiana Revised Statutes 39:1271 and 33:2955, the Hospital may deposit funds in demand deposit accounts, interest-bearing demand deposit accounts, money market accounts, and time certificates of deposit with state banks, organized under Louisiana Law and National Banks having principal offices in Louisiana. Additionally, Louisiana statutes allow the Hospital to invest in direct obligations of the U.S. Government, federally insured instruments, guaranteed investment contracts issued by certain financial institutions, and mutual or trust funds registered with the Securities and Exchange Commission.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 3. Capital Assets

Capital asset additions, retirement, and balances for the years ended June 30, 2007 and 2006, are as follows:

	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007
Capital Assets, Not Being Depreciated				
Land and Land Improvements	\$ 1,800,735	\$ 2,283,530	\$ -	\$ 4,084,265
Construction in Progress	1,352,028	479,663	1,729,823	\$ 101,868
Total Capital Assets, Not Being Depreciated	3,152,763	2,763,193	1,729,823	4,186,133
Capital Assets, Being Depreciated				
Buildings	27,014,016	523,018	-	27,537,034
Fixed Equipment	3,715,912	-	-	3,715,912
Movable and Other Equipment	21,664,465	3,054,802	1,250,791	23,468,476
Physicians' Office Building and Equipment	3,080,852	2,489,934	3,791	5,566,995
Total Capital Assets, Being Depreciated	55,475,245	6,067,754	1,254,582	60,288,417
Less: Accumulated Depreciation for				
Land Improvements	195,978	665	-	196,643
Buildings	11,289,916	645,887	-	11,935,803
Fixed Equipment	3,603,755	112,157	-	3,715,912
Movable and Other Equipment	16,235,576	1,537,826	1,209,910	16,563,492
Physicians' Office Building and Equipment	1,200,706	153,944	15,066	1,339,584
Total Accumulated Depreciation	32,525,931	2,450,479	1,224,976	33,751,434
Total Capital Assets, Being Depreciated, Net	\$ 26,102,077	\$ 3,617,275	\$ 1,759,429	\$ 30,723,116

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 3. Capital Assets (Continued)

Capital asset additions, retirement, and balances for the years ended June 30, 2006 and 2005, are as follows:

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006
Capital Assets, Not Being Depreciated				
Land and Land Improvements	\$ 1,818,307	\$ 182,428	\$ -	\$ 1,800,735
Construction in Progress	50,367	1,301,661	-	1,352,028
Total Capital Assets, Not Being Depreciated	1,668,674	1,484,089	-	3,152,763
Capital Assets, Being Depreciated				
Buildings	26,607,697	406,319	-	27,014,016
Fixed Equipment	3,715,912	-	-	3,715,912
Movable and Other Equipment	20,734,741	1,505,868	576,144	21,664,465
Physicians' Office Building and Equipment	3,071,152	9,700	-	3,080,852
Total Capital Assets, Being Depreciated	54,129,502	1,921,887	576,144	55,475,245
Less: Accumulated Depreciation for				
Land Improvements	195,196	782	-	195,978
Buildings	10,674,325	615,591	-	11,289,916
Fixed Equipment	3,477,140	126,615	-	3,603,755
Movable and Other Equipment	15,389,278	1,391,783	555,485	16,235,576
Physicians' Office Building and Equipment	1,089,884	110,822	-	1,200,706
Total Accumulated Depreciation	30,835,823	2,245,593	555,485	32,525,831
Total Capital Assets, Being Depreciated, Net	\$ 24,962,353	\$ 1,160,383	\$ 20,659	\$ 26,102,077

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 4. Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2007 and 2006 follows:

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amount Due Within One Year
Bonds Payable					
Series 1996	\$ 3,585,000	\$ -	\$ 645,000	\$ 2,940,000	\$ 680,000
Series 2000	1,542,857	-	352,508	1,190,349	342,857
Series 2001	521,053	-	144,358	376,695	115,789
Series 2007	-	12,500,000	-	12,500,000	164,474
Total Long-Term Debt	\$ 5,648,910	\$ 12,500,000	\$ 1,141,866	\$ 17,007,044	\$ 1,303,120

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amount Due Within One Year
Bonds Payable					
Series 1996	\$ 4,200,000	\$ -	\$ 515,000	\$ 3,585,000	\$ 645,000
Series 2000	1,857,143	-	314,286	1,542,857	342,857
Series 2001	627,193	-	106,140	521,053	115,789
Total Long-Term Debt	\$ 6,684,336	\$ -	\$ 1,035,426	\$ 5,648,910	\$ 1,103,646

The terms and due dates of the Hospital's long-term debt at June 30, 2007 and 2006, follows:

- Hospital Revenue and Refunding Bonds (Series 1996), variable interest rate equal to 65 percent of LIBOR, plus 1.6 percent, due in monthly installments through February 1, 2011, secured by the operating revenues of the Hospital and additional property as defined in the trust indenture.
- Hospital Revenue and Refunding Bonds (Series 2000), variable interest rates on the Bond established weekly in accordance with Section 2.05(d) of the indenture, due in monthly installments through November 20, 2010, secured by the operating revenues and property of the Hospital as defined in the trust indenture.
- Hospital Revenue and Refunding Bonds (Series 2001), variable interest rates on the Bond established weekly in accordance with Section 2.05(d) of the indenture, due in monthly installments through November 20, 2010, secured by the operating revenues and property of the Hospital as defined in the trust indenture.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 4. Long-Term Debt (Continued)

- Hospital Revenue and Refunding Bonds (Series 2007), variable interest rates on the Bond established weekly in accordance with Section 2.05(d) of the indenture, due in monthly installments through January 1, 2027, secured by operating revenues and property of the Hospital as defined in the trust indenture. As of June 30, 2007, the effective rate was 4.68%.

As part of the bond agreements, the Hospital has agreed to comply with various covenants. The covenants consist primarily of reporting and audit requirements, insurance coverage, restrictions on additional debt, maintenance of various deposit accounts, and other administrative requirements. The Hospital was in compliance with these covenants for the year ended June 30, 2007.

Scheduled principal and interest repayments on long-term debt are as follows for the year ended June 30th:

	Long-Term Debt	
	Principal	Interest
2008	\$ 1,303,120	\$ 830,657
2009	1,831,542	736,993
2010	1,871,542	640,568
2011	1,639,002	545,387
2012 & Thereafter	10,361,838	3,772,930
Total	\$ 17,007,044	\$ 6,526,535

Note 5. Capital Leases

The Hospital is the lessee of equipment under capital leases expiring in various years through 2012. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for 2007.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 5. Capital Leases (Continued)

Depreciation on assets under capital leases charged to expense in 2007 and 2006, is \$738,790 and \$366,728, respectively.

Following is a summary of property held under capital leases:

	2007	2006
Equipment	\$ 4,201,193	\$ 2,218,663
Less: Accumulated Depreciation	<u>(1,189,052)</u>	<u>(450,262)</u>
Total	<u>\$ 3,012,141</u>	<u>\$ 1,768,401</u>

A schedule of changes in the Hospital's capital leases for 2007 and 2006 follows:

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amount Due Within One Year
Capital Lease					
Leased Equipment Rider #1	\$ 73,674	\$ -	\$ 29,622	\$ 44,052	\$ 30,835
Leased Equipment Rider #2	193,995	-	72,431	121,564	75,766
Leased Equipment Rider #3	769,312	-	118,596	650,716	124,801
Leased Equipment Rider #4	283,823	-	80,635	203,188	84,423
Leased Equipment Rider #5	521,247	-	133,020	388,227	139,687
Leased Equipment Rider #6	-	619,490	119,107	500,383	149,594
Leased Equipment Rider #7	-	429,854	57,705	372,149	102,729
Leased Equipment Rider #8	-	933,188	53,078	880,110	218,992
Total Capital Lease Obligation	<u>\$ 1,842,051</u>	<u>\$ 1,982,532</u>	<u>\$ 664,194</u>	<u>\$ 3,160,389</u>	<u>\$ 926,627</u>

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amount Due Within One Year
Capital Lease					
Leased Equipment Rider #1	102,131	-	28,457	73,674	29,623
Leased Equipment Rider #2	263,238	-	69,243	193,995	72,431
Leased Equipment Rider #3	882,191	-	112,879	769,312	118,595
Leased Equipment Rider #4	-	335,559	51,736	283,823	80,634
Leased Equipment Rider #5	-	564,161	42,914	521,247	133,020
Total Capital Lease Obligation	<u>\$ 1,247,560</u>	<u>\$ 899,720</u>	<u>\$ 305,229</u>	<u>\$ 1,842,051</u>	<u>\$ 434,303</u>

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 5. Capital Leases (Continued)

Minimum future lease payments under capital leases as of June 30, 2007, for each of the next five years and in the aggregate are:

	Capital Lease	
	Principal	Interest
2008	\$ 926,627	\$ 132,745
2009	920,039	88,435
2010	789,721	44,711
2011	410,841	275,842
2012	113,161	2,347
Total	\$ 3,160,389	\$ 544,080

Note 6. Insurance Programs

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee's injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage during the past several years. The Hospital is self-insured with respect to employee health and dental benefits.

The Hospital participates in the Louisiana Patients' Compensation Fund (the Fund) for medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability, which provides that no award can be rendered against it in excess of \$500,000, plus interest and costs. The Fund provides coverage on an occurrence basis for claims over \$100,000 and up to \$500,000. The Hospital is self-insured for costs up to \$100,000 per claim.

The Hospital also has \$100,000 self-insurance retention for its coverage of general liability with a limit of \$1,000,000 per occurrence and with no annual aggregate. An additional umbrella excess general liability policy provides additional excess coverage of \$9,000,000 per occurrence and \$9,000,000 per annual aggregate.

The Hospital is also self-insured for medical, dental, and workers' compensation claims up to predetermined stop-loss amounts. Claims in excess of the stop-loss amounts are insured through commercial insurance carriers. The Hospital has reflected its estimate of the ultimate liability for known and incurred, but not reported, claims in the accompanying financial statements.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 6. Insurance Programs (Continued)

The claims liabilities at June 30, 2007 and 2006, are based on the requirements of GASB Statement No. 10. This Statement provides that liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in the Hospital's claims liability amount during the past two years is reflected below:

	<u>2007</u>	<u>2006</u>
Claims Liability, Beginning of Year	\$ 627,683	\$ 485,010
Current Year Claims and Changes in Estimates	2,103,729	2,131,531
Current Year Claims Payments	<u>(2,191,133)</u>	<u>(1,988,858)</u>
Claims Liability, End of Year	<u>\$ 540,279</u>	<u>\$ 627,683</u>

Note 7. Pension Plan

The Hospital sponsors the Lane Regional Medical Center Retirement Plan (the Plan), a contributory defined benefit pension plan. During 2002, the Board of Commissioners approved an amendment to freeze the Plan with respect to new employees hired on or after July 1, 2002. Benefits will continue to accrue for all participants or potential participants employed as of June 30, 2002. The Board also approved amending the vesting schedule to provide for full vesting at five years, as well as to fully vest employees who may be included in any reduction in workforce.

Plan Description

All employees who have at least two years of continuous service and have worked an average of 20 or more hours a week were eligible to join the Plan on its next anniversary date. Participants who retire at or after the age of 62 are entitled to a retirement benefit, payable monthly for life, equal to 1.5 percent of their monthly earnings for the highest three anniversary dates preceding retirement or termination for each year of creditable service.

Employees leaving employment after five years of creditable service, but before attaining retirement age, are entitled to benefits upon reaching retirement age equal to their accrued benefits upon termination of employment. The Plan also provides death and disability benefits.

The Plan issues an annual publicly available financial report that includes financial statements and required supplementary information, including 10-year historical trend information. The report may be obtained by writing to Lane Regional Medical Center, 6300 Main Street, Zachary, Louisiana 70791, or by calling (225) 658-4000.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 7. Pension Plan (Continued)

Funding Policy

Participants are required to contribute one percent (1%) of their monthly earnings up to \$400, plus two percent (2%) of their monthly earnings in excess of \$400. The Hospital is required to contribute the actuarially determined amounts necessary to fund normal costs plus an additional amount necessary to amortize unfunded past service costs over a 20-year period (from the date that the past service cost was first recognized). The Hospital, however, is not allowed to contribute more than the amount necessary to achieve a ratio of "actuarial value of assets" to the "present value of accrued benefits" of 150 percent (150%), determined as of the beginning of the Plan year.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation.

Funding Status

The amount shown below as a pension benefit obligation was determined as part of an actuarial valuation in February 2006, for the Plan year ending June 30, 2006, as a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employees service-to-date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons with other plans. The measure is independent of the actuarial funding methods used to determine contributions to the Plan.

Assumptions used in accounting for the net periodic pension cost as of June 30, 2007, 2006 and 2005, were as follows:

	2007	2006	2005
Discount Rates	7.00%	8.00%	7.00%
Rates of Increase in Compensation Levels	3.00%	3.00%	3.00%
Expected Long-Term Rate of Return on Assets	7.00%	7.00%	7.00%

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 7. Pension Plan (Continued)

Funding Status (Continued)

Based on the latest actuarial valuation in February 2007, the following table sets forth the Plan's funded status as of the actual valuation periods of July 1, 2006, 2005 and 2004:

	July 1, 2006	July1, 2005	July 1, 2004
Actuarial Value of Plan Assets	\$ 14,819,720	\$ 13,746,606	\$ 12,583,308
Actuarial Accrued Liability	\$ 14,959,620	\$ 13,995,319	\$ 12,822,795
Unfunded Liability	\$ (793,726)	\$ (248,713)	\$ (239,487)
Funded Ratio	99.1%	98.2%	98.1%
Annual Covered Payroll	\$ 7,120,613	\$ 7,057,141	\$ 7,295,040
Unfunded Deficiency as a Percentage of Annual Covered Payroll	(11.14%)	(3.52%)	(3.28%)

The Hospital had an annual required contribution of \$246,808, \$139,947, and \$108,143 for the years ended June 30, 2007, 2006, and 2005, respectively.

Plan assets consist principally of cash equivalents, equity securities, and fixed income funds.

Annual Pension Cost and Net Pension Obligation

The Hospital's annual pension cost and net pension obligation to the Plan for the current year are as follows:

Annual Required Contribution	\$ 246,808
Interest on Net Pension Obligation	(7,214)
Adjustment to Annual Required Contribution	<u>(9,201)</u>
Annual Pension Cost	230,393
Contributions Made	<u>246,808</u>
Decrease in Net Pension Obligation	(16,415)
Net Pension Obligation, Beginning of Year	<u>(103,053)</u>
Net Pension Obligation, End of Year	<u>\$ (119,468)</u>

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 8. Business and Credit Concentrations

Financial instruments that potentially subject the Hospital to concentrations of credit risk consist principally of unsecured accounts receivable.

The Hospital grants credit to patients, substantially all of whom are local residents. The Hospital generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross and commercial insurance policies).

The mix of net receivables from patients and third-party payors at June 30, 2007 and 2006, is as follows:

	2007	2006
Medicare	26%	39%
Medicare Risk	8	10
Medicaid	11	9
Commercial Insurance Companies, Health Maintenance Organizations, and Other	48	34
Self-Pay Patients	7	8
	<u>100%</u>	<u>100%</u>

Note 9. Net Patient Service Revenue and Accounts Receivable

As discussed in Note 1, patient service revenue is reported net of contractual adjustments arising from various third-party arrangements. A summary of the basis of reimbursement with third-party payors follows:

Medicare

The Hospital is paid for inpatient acute care services rendered to Medicare program beneficiaries under prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The prospectively determined classification of patients and the appropriateness of the patients' admissions are subject to validation reviews by a Medicare peer review organization which is under contract with the Hospital to perform such reviews.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 9. Net Patient Service Revenue and Accounts Receivable (Continued)

Medicare (Continued)

Outpatient services were paid via cost reimbursement methodologies, fee schedule limitations, or cost/fee blending methodologies before August 1, 2000. After August 1, 2000, cost based and cost/fee blend reimbursed services have been paid via the outpatient prospective payment system. Under this system most outpatient services are paid at predetermined outpatient rates, subject to certain stop-loss provisions referred to by Medicare as the transitional corridor. The transitional corridor will limit potential reductions in reimbursement caused by the implementation of the outpatient prospective payment system through 2003.

Cost reimbursed outpatient services were paid at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital, and audits thereof, by the Medicare fiscal intermediary. Outpatient services subject to the outpatient prospective payment system are not subject to cost report settlement with several exceptions, and without regard to the transitional corridor.

The Hospital's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through June 30, 2005.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per diem that includes capital costs. Certain types of outpatient services are paid based upon a cost reimbursement methodology. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital, and an audit thereof, by the Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 40 percent and 8 percent, respectively, of the Hospital's net patient revenue, for the year ended June 30, 2007, and 42 percent and 16 percent, respectively, of the Hospital's net patient revenue, for the year ended June 30, 2006. The laws and regulations under which Medicare and Medicaid programs operated are complex, and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2007 net patient revenue increased by approximately \$775,520 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 9. Net Patient Service Revenue and Accounts Receivable (Continued)

Other

The Hospital has also entered into agreements with certain other commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates-per-discharge, discounts from established charges, and prospectively determined daily rates.

The mix of revenues by significant payor category (based on gross charges) is as follows:

	2007	2006
Medicare	40%	29%
Medicare Risk	6	8
Medicaid	15	8
Commercial Insurance Companies, Health Maintenance Organizations, and Other	36	38
Self-Pay Patients	3	17
	<u>100%</u>	<u>100%</u>

Note 10. Other Operating Revenue

Other operating revenue recognized during the years ended June 30, 2007 and 2006, consists of the following:

	2007	2006
Physician Revenues	\$ 1,407,559	\$ 1,331,379
Cafeteria Revenues	345,707	300,707
Other	494,263	236,553
Total Other Operating Revenues	2,247,529	1,868,639
Less Related Expenses	(1,837,027)	(1,500,948)
Net Other Operating Revenue	\$ 410,502	\$ 367,691

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 11. Commitments and Contingencies

The Hospital is involved in various legal actions and claims that arose as a result of events that occurred in the normal course of operations. The ultimate resolution of these matters is not ascertainable at this time; however, management is of the opinion that any liability or loss in excess of insurance coverage resulting from such litigation will not have a material effect upon the financial position of the Hospital.

Note 12. Recent Reporting and Disclosure Developments

Accounting Pronouncements Issued Not Yet Adopted

As of June 30, 2007, the Governmental Accounting Standards Board has issued several statements not yet implemented by the Hospital. The statements, which might impact the Hospital, are as follows:

Governmental Accounting Standards Board Statement No. 45 (GASB 45)

The Hospital will adopt GASB 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*, during fiscal year 2009. This statement addresses how state and local governments should account for and report costs and obligations related to post employment benefits (OPEB). Management has not evaluated the effect of adopting this statement.

Governmental Accounting Standards Board Statement No. 47 (GASB 47)

The Hospital will adopt GASB 47, *Accounting for Termination Benefits*, during fiscal year 2009. This statement provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated.

Governmental Accounting Standards Board Statement No. 49 (GASB 49)

The Hospital will adopt GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, during fiscal year 2008. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. This standard requires the government to estimate the components of expected pollution remediation outlays and determine whether the outlays for those components should be accrued as liability or, if appropriate, capitalized when goods and services are acquired.

**HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER**

Notes to Financial Statements

Note 12. Recent Reporting and Disclosure Developments (Continued)

Accounting Pronouncements Issued Not Yet Adopted (Continued)

Governmental Accounting Standards Board Statement No. 50 (GASB 50)

The Hospital will adopt GASB 50, *Pension Disclosures*, an amendment of GASB Statement No. 25 and 27, during fiscal year 2008. This statement more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits (OPEB) and, in doing so, enhances information disclosed in notes to the financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits.

Governmental Accounting Standards Board Statement No. 51 (GASB 51)

The Hospital will adopt GASB 51, *Accounting and Financial Reporting for Intangible Assets*, during fiscal year 2010. This statement provides guidance regarding how to identify, account for and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is non-financial in nature, and has an initial useful life extending beyond a single reporting period.



**Independent Auditor's Report
on Supplementary Information**

Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana,
d/b/a Lane Regional Medical Center
Zachary, Louisiana

Our audit was made for the purpose of forming an opinion on the basic financial statements for the years ended June 30, 2007 and 2006, taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information for the years ended June 30, 2007 and 2006, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A Professional Accounting Corporation

December 14, 2007

110 VETERANS MEMORIAL BOULEVARD, SUITE 200, METAIRIE, LA 70005-4958 • 504.835.5522 • FAX 504.835.5535
5100 VILLAGE WALK, SUITE 202, COVINGTON, LA 70433-4012 • 985.892.5850 • FAX 985.892.5956
5153 BLUEBONNET BOULEVARD, SUITE B, BATON ROUGE, LA 70809 • 225.296.5150 • FAX 225.296.5151
WWW.LAPORTE.COM

RSM McGladrey Network
An Independently Owned Member

**HOSPITAL SERVICE DISTRICT NO.1
 OF EAST BATON ROUGE PARISH, LOUISIANA
 d/b/a LANE REGIONAL MEDICAL CENTER
 Schedule of Board of Commissioners and Salaries
 Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Jerry Boudreaux	\$ 200	\$ 275
Robert Williams, Jr.	225	200
Howard Martin, M.D.	200	250
Richard Sessions	225	275
Judy Myles	-	200
Patricia D. Gauthier	225	250
James Carroll	175	225
Dell Guerra	225	275
Jimmy Jackson	225	50
William King	175	200
Total	<u>\$ 1,875</u>	<u>\$ 2,200</u>



**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed in Accordance
with *Government Auditing Standards***

Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana
d/b/a Lane Regional Medical Center
Zachary, Louisiana

We have audited the financial statements of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital), a related organization of the City-Parish of Baton Rouge, as of and for the year ended June 30, 2007, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated December 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control.

110 VETERANS MEMORIAL BOULEVARD, SUITE 200, METAIRIE, LA 70005-4958 • 504.835.5522 • FAX 504.835.5535
5100 VILLAGE WALK, SUITE 202, COVINGTON, LA 70433-4012 • 985.892.5850 • FAX 985.892.5956
5153 BLUEBONNET BOULEVARD, SUITE B, BATON ROUGE, LA 70809 • 225.296.5150 • FAX 225.296.5151
WWW.LAPORTE.COM

RSM McGladrey Network
An Independence OneNet Member

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Lane Regional Medical Center, in a separate letter dated December 14, 2007.

This report is intended for the information of the Board of Commissioners, management of Lane Regional Medical Center, and the Legislative Auditor of the State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties.



A Professional Accounting Corporation

December 14, 2007

**HOSPITAL SERVICE DISTRICT NO.1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Current Year Audit Findings
For the Year Ended June 30, 2007**

A. FINDINGS-FINANCIAL STATEMENT AUDIT

No findings noted.

**HOSPITAL SERVICE DISTRICT NO.1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Prior Year Audit Findings
For the Year Ended June 30, 2006**

Finding 2006-1

Compliance with Laws and Regulations

The Hospital was unable to file its annual audit in accordance with LSA-RS 24:514, 33:463, and/or 39:92.

The primary cause of the untimely filing was the fact that the independent auditor did not electronically submit the report prior to December 31, 2006, as understood by the Hospital. The audit was presented by the independent auditor before the Hospital's Finance Committee and accepted by that Committee in October 2006.

The audit reports are being filed as requested by the Legislative Auditor's office.

Management's Response: It is understood that it is the joint responsibility of the auditor and auditee to ensure the timely release of the report. The auditor and management have agreed that the email notification received by the auditor from the Legislative Auditor upon successful transmission of the audit report will be forwarded to the auditee to ensure timely filing.



December 14, 2007

To the Board of Commissioners
Lane Regional Medical Center
Zachary, LA

This letter includes one comment and suggestion with respect to matters that came to our attention in connection with our audit of the financial statements of Lane Regional Medical Center for the year ended June 30, 2007. This item is offered as constructive suggestion for consideration as part of the ongoing process of modifying and improving the Hospital's practices and procedures for maintaining compliance with state laws and regulations.

Observations:

The Hospital did not immediately notify both the East Baton Rouge District Attorney and the State of Louisiana's Legislative Auditor of an impropriety that was detected by Hospital management. While the impropriety involved a minor monetary amount and the Hospital's system of internal controls identified and impropriety and full retribution was made to the Hospital, the Hospital had an obligation to report the incident to both parties mentioned above.

Impact:

Failure to report instances of improprieties to both the East Baton Rouge District Attorney's office together with the State of Louisiana's Legislative Auditor's office could result in the Hospital being out of compliance with certain laws and regulations of the State of Louisiana.

Recommendation:

Upon the detection of any improper act, regardless of the size of the monetary amount, Hospital management should provide written documentation of the incident, together with any disciplinary action taken by the Hospital, to the East Baton Rouge District Attorney's office and the State of Louisiana's Legislative Auditor's office.

110 VETERANS MEMORIAL BOULEVARD, SUITE 200, METAIRIE, LA 70005-4958 • 504.835.5522 • FAX 504.835.5535
5100 VILLAGE WALK, SUITE 202, COVINGTON, LA 70433-4012 • 985.892.5850 • FAX 985.892.5956
5153 BLUEBONNET BOULEVARD, SUITE B, BATON ROUGE, LA 70809 • 225.296.5150 • FAX 225.296.5151

WWW.LAPORTE.COM

RSM McGladrey Network
An Independently Owned Member

Management Response:

We understand your response to this matter to be that you fully understand the compliance requirements and will provide written documentation to both the East Baton Rouge District Attorney's office and the State of Louisiana's Legislative Auditors office upon the detection of any impropriety, not matter how small the infraction might be.

This letter is intended solely for the information and use of the Board of Commissioners, management, and the Legislative Auditor of the State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties.

Laporte, Sehart, Romig & Hand

LAPORTE SEHRT ROMIG HAND